

February 28, 2024

Aratt One World Private Limited: [ICRA]BB(Stable); Assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based –Term loan*	350.0	[ICRA]BB(Stable); Assigned
Total	350.0	

*Instrument details are provided in Annexure-I; *proposed

Rationale

The assigned rating factors in the favourable location of the residential (Ayatana Residences) and the commercial tower (One World - Tower 1) projects being developed as Phase 1 of mixed-use development township, by Aratt One World Private Limited (AOWPL) in Electronics City, Bangalore, enhancing the marketability. The commercial tower has pre-leasing tie-up for 52% of the total leasable area of 0.85 msf. The rating favourably notes the established experience of the Aratt Group spanning around two decades in the development of residential, commercial, hospitality and plotted projects in Bangalore, Karnataka.

The rating is, however, constrained by the exposure to execution risks as both the projects are in the nascent stage. As on November 30, 2023, around 97% of the total budgeted project cost was yet to be incurred. The land for the project has been acquired and the supplementary lease cum sale agreement with Karnataka Industrial Area Development Board (KIADB) is pending for execution and the projects are exposed to approval risk. Handover of the pre-leased area of the commercial project as per the LOI is in November 2025, which is expected to be extended by a year against the scheduled date of commencement of commercial operations (DCCO) on April 1, 2027. Timely completion of the projects without any time and cost overruns would be critical from the credit perspective. The majority of the total project cost is to be funded by external debt (~50%), which is yet to be sanctioned, and customer advances (~37%), exposing AOWPL to funding risk. The company also faces market risk for the residential project, which is yet to be launched for sale and for the balance lease tie-ups for the commercial project.

The Stable outlook reflects ICRA's opinion that AOWPL will benefit from the favourable location of the projects in Electronics City, Bangalore, supporting the company to achieve healthy sales in the residential project and good leasing progress for the commercial project.

Key rating drivers and their description

Credit strengths

Favourable location of property; LOI for 52% of leasable area of commercial project in place – Aratt One World Project is located in Phase 1, Electronics City, Bangalore, thereby enhancing its marketability. The commercial tower has pre-leasing tie-up for 52% of the total leasable area of 0.85 msf.

Established track record of developer in real estate and hospitality sectors – The Aratt Group, promoted by Mr. Tony Vincent and his family members, has around two decades of experience in developing residential, commercial, hospitality and plotted projects. As on November 30, 2023 the Group had developed around 36 residential projects with a saleable area of around 7 msf in Bangalore, while four projects with 1.7 msf of area were under development and five projects of around 3 msf were in the pipeline. The Group has presence in the hospitality industry and operates under the name of Ayatana Hospitality in Karnataka and Kerala.

Credit challenges

Nascent stage of project; exposure to execution, funding and market risk – The company is exposed to execution risk as both the projects are currently in the nascent stage with only land being acquired. As on November 30, 2023, 97% of the total budgeted project cost was pending to be incurred. The execution of supplementary lease cum sale agreement with KIADB is pending for execution and the projects are exposed to approval risk. The majority of the total project cost is to be funded by external debt (~50%), which is yet to be sanctioned, and customer advances (~37%), exposing AOWPL to funding risk. The company also faces market risk for the residential project, which is yet to be launched for sale, and for the balance lease tie-ups for the commercial project.

Cyclicality in residential real estate sector; exposure to geographical and asset concentration risks – Being a cyclical industry, the real estate sector is highly dependent on macro-economic factors, which exposes the company's sales to any downturn in demand. It faces geographical and asset concentration risks inherent in single location projects.

Liquidity position: Stretched

AOWPL's liquidity profile is stretched. The balance pending cost of Rs. 666 crore (Residential: Rs. 183 crore; Commercial: Rs. 483 crore) is expected to be met from the proposed CF loan of around Rs. 70 crore and Rs. 270 crore, respectively, security deposits of around Rs. 40 crore, promoter contribution of Rs. 89 crore and the rest through customer advances. The debt is yet to be sanctioned and ~Rs. 74 crore of promoter contribution is yet to be infused in the project.

Rating sensitivities

Positive factors – Significant and sustained growth in sales and collections for the company's residential project, and an increase in lease tie-ups along with timely commencement of rentals for the commercial project, resulting in healthy debt protection metrics and improved liquidity position could result in a rating upgrade.

Negative factors – Weak sales or subdued collections for the residential project, or delay in commencement of rentals for the commercial project or inability to tie-up incremental leases at adequate rates, impacting the cash flows and debt coverage metrics could lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate credit rating methodology Realty - Lease Rental Discounting (LRD) Realty - Commercial/Residential/Retail
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Aratt One World Private Limited (AOWPL) is developing a mixed-use development (residential + commercial + hotel) project across a 14.14-acre land parcel in Electronics City, Bangalore. The entity was initially incorporated as RGR Tech Parks Private Limited on March 14, 2007 and was renamed as Aratt One World Private Limited in May 2022. It is located in Bangalore, Karnataka. The project land is a part of KIADB's industrial land parcel. Tony Vincent (Aratt Group - Founder and MD) partnered with H P Rajagopala Reddy and Sushma Rajagopala Reddy to avail development rights of the project land. The Reddys are the allottee of the KIADB industrial land. In January 2024, 49% of equity stake has been acquired by Tony Vincent and his relatives (members of Aratt Group), while 51% equity is held by H P Rajagopala Reddy and Sushma Rajagopala Reddy.

Key financial indicators (audited): Not applicable for a project entity

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on Jan 31, 2024 (Rs. crore)	Date & rating in FY2024 Feb 28, 2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
1 Fund-based – Term loan	Long term	350.0	Nil*	[ICRA]BB (Stable)	-	-	-

Proposed term loans- yet to be availed

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term loan	Simple

** Proposed term loans- yet to be availed*

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#).

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loans*	-	-	-	350.0	[ICRA]BB (Stable)

Source: Company; * Proposed term loans- yet to be availed

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Annexure II: List of entities considered for consolidated analysis: Not Applicable

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Branches



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